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March 8, 1999

99-00156

David Waddell
Executive Director
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

RE: **Petition of AT&T for permission to acquire property of SmarTalk TeleServices, Inc. and certain subsidiaries; and withdrawal of Notification of Asset Purchase Agreement by and among AT&T, SmarTalk TeleServices, Inc. and Certain Subsidiaries and Request for Permission to assume certificate pursuant to T.C.A. § 65-4-113.**

Dear Mr. Waddell:

Attached to this letter is AT&T's petition requesting permission to acquire property of SmarTalk TeleServices, Inc. and certain subsidiaries pursuant to T.C.A. § 65-4-112. With the filing of this petition, we withdraw our letter of February 23, 1999, Notification of Asset Purchase Agreement by and among AT&T, SmarTalk TeleServices, Inc. and Certain Subsidiaries and Request for Permission to assume certificate pursuant to T.C.A. § 65-4-113, Docket Number 99-00130.

If you have any questions about these filings, please call me or Garry Sharp at 615-259-2830.

Sincerely,


Jim Lamoureux

Attachment

**BEFORE THE
TENNESSEE REGULATORY AUTHORITY**
Nashville, Tennessee

**IN RE: PETITION OF AT&T FOR PERMISSION TO ACQUIRE
 PROPERTY OF SMARTALK TELESERVICES, INC. AND
 CERTAIN SUBSIDIARIES PURSUANT TO T.C.A. § 65-4-112**

DOCKET NO.: _____

99-00156

Pursuant to T.C.A. § 65-4-112, AT&T respectfully requests permission from the Tennessee Regulatory Authority for conditional authority to acquire the assets of SmarTalk TeleServices, Inc., ("SmarTalk"), pursuant to an Asset Purchase Agreement (Agreement) entered into between AT&T and SmarTalk on January 19, 1999. The details of the proposed transaction are more fully set forth below.¹

Pursuant to the Asset Purchase Agreement (the "Agreement") dated January 19, 1999, by and among AT&T, SmarTalk, and certain subsidiaries of SmarTalk (collectively "SmarTalk"), AT&T will acquire substantially all the assets, properties, business, and goodwill of SmarTalk for approximately \$192.5 million, and also will assume certain liabilities.

SmarTalk TeleServices, Inc. is a California corporation, with its principal place of business at 5080 Tuttle Crossing Boulevard, Dublin, Ohio 43016-3566. SmarTalk develops, manufactures, sells, and provides prepaid telecommunications products and

¹ This filing supplements and supercedes the letter request submitted by AT&T to the TRA on February 23, 1999. That letter sought permission under T.C.A. § 65-4-113 for AT&T to acquire SmarTalk's certificate. However, as set forth more fully below, it will not be necessary for AT&T to acquire SmarTalk's certificate, which SmarTalk intends to withdraw. Accordingly, AT&T now requests permission from the Authority pursuant to T.C.A. § 65-4-112 rather than 65-4-113.

services, including prepaid local and long-distance calling cards and prepaid wireless telephones and services. It has distribution relationships with national and regional retailers and co-brands calling cards for corporate and product promotions. Its total revenues for 1997 were approximately \$71 million. SmarTalk was a publicly traded company (NASDAQ: SMTK) until January 19, 1999. The last trading price of SmarTalk's common stock on that day was \$1.90625 per share.

At the present time, SmarTalk is operating under Chapter 11 of the United States Bankruptcy Code, as a debtor-in-possession, subject to approval of the United States Bankruptcy Court for the District of Delaware in Wilmington (Case Numbers 99-108 through 99-127 (MFW)). SmarTalk filed on January 19, 1999, a motion for authorization to sell Assets to AT&T. The Agreement makes the approval of the bankruptcy court (including the court's approval of the Agreement, the asset sale, the assignment and assumption of the contracts and a finding of AT&T as a "good faith" purchaser) a condition to closing. It is AT&T's intent to close this proposed transaction on or before April 1, 1999. At that time, AT&T will assume responsibility for serving all of SmarTalk's customers.

The assets to be acquired at the closing of the proposed transaction include: leased real property; contracts with suppliers and customers; intellectual property (owned, licensed and patent/trademark applications); certain telecommunications equipment and facilities; office furniture and equipment; books and records; and cash on hand, accounts receivable and other current assets as shown on the balance sheet as of the closing.


As part of the Agreement, AT&T will assume the unused minutes on all SmarTalk's Prepaid Calling Cards and for all Prepaid Wireless Obligations. The Prepaid Calling Card

obligations include all cards sold or distributed by SmarTalk prior to the Closing Date entitling the holder to make local, long distance or international telephone calls having a duration not in excess of a pre-existing amount of calling time (without further payment) but excluding cards first activated (or last recharged) earlier than two years prior to the Closing Date. Prepaid Wireless Obligations include the obligations to provide prepaid units of wireless calling time to any end-user customer in connection with products, sold or distributed by Sellers prior to the Closing Date, but excluding any such obligations for prepaid cards or prepaid phones first activated earlier than three months prior to the Closing Date.

SmarTalk currently holds a Certificate of Convenience in Tennessee. However, in conjunction with the Agreement, SmarTalk will request that its certificate be withdrawn coincident with the Closing Date (April 1, 1999). T.C.A. § 65-4-112(a) requires approval from the TRA before a public utility may merge or consolidate its property with another

utility. Accordingly, pursuant to T.C.A. § 65-4-112(a), AT&T respectfully requests that the TRA approve AT&T's purchase of SmarTalk.

Respectfully submitted,



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March 8, 1999